

**BEFORE THE POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0001**

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POSTAL RATE AND FEE CHANGES, 2000

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Docket No. R2000-1

**INITIAL BRIEF OF  
THE NATIONAL NEWSPAPER ASSOCIATION**

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## **I. Introduction and Synopsis**

The National Newspaper Association (NNA) appears in this proceeding with a primary interest in within county mail. It also shares a concern about regular rate Periodical mail with members of the Periodicals Mailers Coalition with whom NNA has joined in this proceeding.

NNA newspapers are community weeklies and dailies with a heavy dependence upon the United States Postal Service for delivery. Because most newspaper members of NNA are local papers, with a heavy concentration in local communities, the within county rate (hereinafter "in-county") is of critical importance. NNA is the only party to this proceeding with a primary focus upon this subclass. The evidence shows that the small size of the subclass has led to significant problems with data reliability that may result in unfairly high rates. The Postal Service has failed to sustain its burden of proof to demonstrate that these data are accurate and that substantial increases in rates are justified by these data. NNA asks the Commission to use its discretion to adjust volume and costing data wherever appropriate to prevent mailers from being penalized by the size of the subclass.

Regular Periodical rate mail is also an important component of a community newspaper's distribution network. NNA newspapers use regular rate Periodical mail to reach readers who live within a local market but outside a county's political boundaries. It also uses regular rate mail for those who live in adjacent communities but who work or shop within the market and those who live

far away, but who maintain an interest in the community--such as college students. In its focus upon regular rate mail, NNA works with the Periodicals Mailers Coalition as its only newspaper member. NNA thus urges the Commission's attention to the important issues addressed by the Coalition in its brief.

Community newspapers continue to confront problems in timely delivery of the product. Accordingly, NNA has proposed once again in this case, as it did in Docket R97-1, that the Commission grant a Delivery Unit (DU) discount for newspapers delivered through exceptional dispatch. NNA believes the discount will reward publishers now performing uncompensated work-sharing by hauling carrier route sorted mail to delivery units. The discount will also provide publishers who have not used exceptional dispatch in the past because of the expense with incentives to bypass costly mail processing facilities. The Postal Service presents rebuttal testimony in accord with NNA's position. The Commission is asked to accept the Postal Service's rebuttal position and to agree that this discount should be extended by Domestic Mail Manual regulation to exceptional dispatch mailers, or in the alternative to make a specific recommendation for including the discount as part of the recommended decision in this docket.

Finally, NNA urges the Commission to accept cost reduction data, as well as the Periodical Mailers' positions on mail processing volume variability put forth by witnesses Cohen, Glick, Buc, Nelson, Stralberg and others testifying for the Periodical Mailers. The validity of \$203 million in Periodical cost reductions was

acknowledged by USPS witness Taufique on rebuttal. Tr. 38/17329. Without recognition of the cost adjustments, rising Periodical rates will deliver an extremely heavy blow to the newspapers that are heavily dependent upon the United States Postal Service.

**II. In-County Mail mail volumes should be adjusted to compensate for unreliable RPW data.**

**A. Accuracy in mail volume data is important in the only test that matters to the mailer: the prices.**

With 923,865 million pieces in the base year of this case (Tr.2/803) and 862,061 million pieces in FY99, (Tr. 35/16762), in-county mail constituted less than 1% of the Postal Service's business by volume. Tr. 2/923. Clearly, within the range of focus for the Postal Service, the subclass is small and its components in many respects are troublesome to an institution focused upon its primary volume drivers--First-Class and Standard A. But for a small newspaper, in-county may represent 100% of its distribution expense. More critically, it may represent the totality of the distribution system. In other words, without in-county mail, the newspaper would not reach the reader.

Such a small volume base--particularly in an environment of rising costs--means accurate counts of the pieces within the system are of prime importance. Another way of explaining the impact is to say that the base volumes reported by the Revenue, Piece and Weight (RPW) reports can cause rates based upon volume variable costs produced by other USPS tracking systems to settle at

higher levels than are actually needed to cover the costs. They also can create rates that result in overcharging the mailer.

A simple math lesson of applying a series of possibly accurate volumes to a sample cost recorded in this docket shows the difference the choices of volume data can make to a small mailer's budget.

Begin with the Postal Service's most recent reports of volume variable costs for in-county: \$86,222 million (after rates FY 99 costs reported at Tr. 35/16761)

If FY98 volumes of 923,865 million pieces were taken as accurate and applied to those costs, the newspaper's per copy volume variable cost, based upon the Postal Service's after rates cost analysis, (Tr. 35/16762), would be \$.0933. For a 5,000 circulation weekly newspaper, (5,000 copies times 52 weeks a year) that cost produces a \$24,265.15 postage bill for the year.

But if the Postal Service's upper 95% confidence limit volume of 963,702 million pieces for FY98 were used, the annual bill would be \$23,262.09, a \$1,003 difference. If the FY99 volumes of 893,454 million pieces were used instead, the newspaper's per copy volume variable cost would be \$.0965, producing a \$25,091 annual postage bill.

Depending upon which volume totals are used for that particular set of costs, the publisher --who most likely has made no material change in his mailing patterns-- may be faced with spending \$825 more than he should. Or he may be able to pocket an \$1,828 savings, if the Commission were to choose the highest defensible volume number on the record.

A savings of \$1,828 may not mean much to the major mailers in this case. For a small newspaper, however, it could provide the funds for a new computer or a stipend for a high school football correspondent. Small numbers make large totals for a small business that counts every penny.

It may be obvious that FY98 volume totals cannot be used as a divisor for FY99 volume variable costs, except as a proxy for illustration. But, in an environment with shaky data, the FY 98 volumes may work as well as any. In fact, a review of the record will show that there is little reason for the Commission to trust the FY99 volume totals more than those produced for FY 98. What is important in this case, as in those of the entire past decade, is the Commission's recognition that the statistical variations of RPW reports will produce widely divergent outcomes that will result in relatively high impact dollars to a small newspaper.

This impact may explain why NNA has focused its attention so intently upon the accuracy of the Revenue, Piece and Weight report that has been the subject of its litigation since Docket R94-1. Although the Postal Service clearly has made an attempt to improve the accuracy of its RPW output for this subclass, Tr. 2/923-4, the results produced by RPW continue to show trends of rather dramatic decline that neither the Postal Service nor NNA can explain. The Commission has good reason to be skeptical of the reliability of the system with respect to this subclass.

**B. There is no explanation on the record for the apparent decline in volumes for this subclass.**

The Postal Service's RPW data show that from 1986 to 1999, in-county mail volume has dropped by nearly 50%. A chart of the per-piece volumes indicates a fairly steady year-to-year decline:

Year	Pieces
1986	1,737,956
1987	1,479,531
1988	1,488,271
1989	1,458,827
1990	1,382,914
1991	1,179,504
1992	1,192,671
1993	1,057,671
1994	1,006,421
1995	907,187
1996	877,829
1997	947,047
1998	923,865
1999	862,061

Tr.2/772, Tr.2/803, Tr. 35/16762.

The Postal Service appears to barely notice this apparent decline and it offers hardly a gesture of concern about the reasons. Professor Tolley perhaps comes the closest to attempting a stab at an explanation in his forecasting trends.

He attributes the decline to "long-term changes in newspaper and magazine reading habits." Direct Testimony of George S. Tolley, USPS-T-6 at 89. But Dr. Tolley's trend research for in-county mail apparently is confined to daily newspapers and magazines, when there is no evidence that either of these worthy genres are heavy users of in-county.



In disarming candor, Dr. Tolley all but admits that fact. In fact, he shows there is a lot he does not know about in-county. He doesn't know anything at all about the mail mix, whether it comprises mostly newspapers, mostly magazines or something else. Tr. 9/3713. Since he does not know what percentage of in-county comprises newspapers, NNA/USPS T6-3, Tr. 9/3639, he clearly does not know what percentage of the subclass comprises daily as opposed to weekly newspapers. However, he acknowledges in his testimony that weekly newspapers are more likely to use in-county, USPS T-6 at 90. He further admits in oral cross-examination that the overwhelming majority of daily newspapers are primarily delivered by private carrier, and not by the Postal Service. Tr. 9/3711.

Having conceded daily newspapers out of the subclass for all practical purposes and having apparently nothing to offer about magazine trends, he seems to conclude that weekly newspapers are a key part of the subclass, Tr. 9/3713. But then he relentlessly ignores his own beliefs by relying upon data about daily newspapers to explain the subclass: the W.R. Simmons & Associates data about declining readership of daily and Sunday newspapers found on the Newspaper Association of America website. Id. at lines 1-10.

It is clear that although Dr. Tolley recognizes that weekly newspapers drive this subclass, he has not examined the behavior of weekly newspaper publishers as mailers in analyzing the volume trends. Id. at lines 18-22. He takes at face value that the volumes are declining because the Postal Service provides that information in the BRPW and he has no reason to look behind the data. Tr. 9/3718.

Dr. Tolley doesn't have to construct the trend. All he has to do is explain it so he can produce a reliable forecast . In doing so, faced with falling mail volumes and a belief that information on weekly newspapers is difficult to find, Tr. 9/3714-15, he proceeds to use what he has in hand: the allegedly (and irrelevant) declining daily. Tr.9/3715. It is a classic case of looking for the lost nickel under the lamppost where the light is bright rather than in the dark alley where it was lost. The resulting lapse in the trend leaves us with a void in the record in the only likely place where explanations for the shrinking in-county might have occurred.

**C. Is the subclass really in decline? NNA casts doubt upon that conclusion.**

Also lacking an explanation for the decline, NNA has examined the pavement under its own lamppost. NNA's Witness Heath explains that in meetings following Docket R97-1 to resolve doubts about RPW, the Postal Service attempted to shift the burden of proof for RPW to NNA by challenging it to disprove the trend. Direct Testimony of Max Heath, NNA-T-1 at Tr. 24/10906; USPS/NNA T1-6 at Tr.2/10946.

Knowing that obtaining data on the use of the subclass by newspaper industry was a costly and complex undertaking for a small association, (Tr. 24/10948) Heath nonetheless persuaded the organization's board of directors to conduct a fund-raising campaign and to retain an expert consultant to carry out the study. Id. at 24/10907.

The study results are produced at Tr. 24/11057 - 11076 in a document titled "Findings from the National Newspaper Association In-County Mail Survey." It is summarized by NNA witness Stuart Elliott.<sup>1</sup> The survey looked at newspaper circulations and mailing data for a period from 1992-1998.

Among Dr. Elliott's findings are the following:

--Circulations by weekly newspapers, the most likely users of in-county, during the period increased by 9.06%, while circulations by daily newspapers decreased by 2.75%. Tr. 24/11045.

--The usage of in-county mail by weekly newspapers increased by 7.21%, but was offset by a 13.54% decrease in usage by daily newspapers. Id.

--The net increase in usage of in-county by all newspapers represented in the study was 2.85%. Tr. 24/ 11046.

Dr. Elliott confirmed Dr. Tolley's reluctant suspicions that weekly newspapers drive the subclass. His observation was that weekly newspapers account for about 80% of all newspaper in-county mail. Id. He noted that the apparent shift of dailies away from the subclass was immaterial to the trend because the larger dailies that accounted for the circulation drops accounted for only about 6 percent of in-county mail in 1992, the baseline year of the study. Tr. 24/11047.

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<sup>1</sup> It may be noted that Elliott's study identified about 536 million mail pieces supplied by newspapers in the subclass for 1998. Although the time period studied presumably would not be a perfect match for the Postal Service's FY98 totals, a rough calculation of this usage against the reported RPW for either FY 98 or FY99 would show newspaper usage to be about 62% of the total subclass.

Dr. Elliott showed that the study's finding of a 2.85% net increase in in-county usage by all newspapers is statistically different from the 22.5% net decrease in total in-county usage reported by BRPW over the same period. Tr. 24/11096-7. This implies that the main users of the in-county subclass are experiencing a substantially different trend than the trend suggested by the BRPW for the entire subclass. These two trends could both be correct if the non-newspaper users of in-county mail experienced a dramatic decline over this six-year period, but such a decline seems unlikely. Instead, the difference in trends raises questions about the reliability of the BRPW volume figures.

**D. BRPW's flaws most likely derive from the thinness of the data.**

To understand possible sources of flawed RPW outputs of in-county volumes, it is necessary to negotiate the sometimes labyrinthine testimony of USPS's witness for the Bulk Revenue, Piece and Weight system (BRPW), which is the sole source of volume data for in-county. Tr. 2/897. The Postal Service's witness, Herbert Hunter, offers little by way of background in introducing BRPW reports. The total sum of witness Hunter's explanation of BRPW as it applies to Periodical volume is thus:

"Under BRPW, total revenue and volume are estimated for the bulk mail categories of First Class Mail, permit imprint Priority Mail, Periodicals, Standard Mail A and permit imprint Parcel Post and Bound Printed Matter. The following AIC (Account Identified Code) subaccounts from the revenue accounting system are used in BRPW. AIC 121 for permit imprint First-Class Mail and Priority Mail, AIC 135 for Periodicals, AIC 125 and AIC 130 for permit imprint Standard Mail A

and AIC 131 for permit imprint, Bound Printed Matter Because these revenue accounts do not provide rate category detail or volume information, and they do not represent all mail categories comprising all bulk mail, the BRPW also utilized mailpiece information obtained from postage statements gathered from an ongoing panel of post offices comprised of automated bulk mail entry offices under the PERMIT SYSTEM and a supplemental stratified random sample of non-automated post offices." Direct Testimony of Herbert B. Hunter III, USPS T-5 at page 2, line 16 through page 3, line 6.

He does not choose to further elaborate in his direct testimony on the derivation of in-county volumes, despite the fact that the Commission adjusted the volumes in Docket R97-1 because of questions about the RPW report accuracy. See PRC Op. R97-1 at 546, para 5852. The discussion is left for the intervenors to coax onto the record.

A labored cross-examination of a reluctant witness is a feeble replacement for a full-faith disclosure and explanation from the Postal Service. But the record does yield a slightly more detailed picture of the workings of BRPW with respect to in-county. The following appears to be the Postal Service's approach to determining these volumes:

1. A system of 9 strata is constructed to measure volume data from post offices. Three of the strata, denoted 1.1, 1.8 and 1.9, in Library Reference I-230, Appendix A (Tr. 2/907) comprise post offices using the PERMIT system. These are the so-called automated offices. Tr. 2/ 910.

2. The remaining strata are non-automated offices. These are strata 2.1, 2.2, 2.3, 2.4, 2.5 and 3.0. These strata are ranked by revenues, Tr. 2/922, and from each of them, a number of offices are randomly drawn to represent the sample, Tr.2/941.

3. Volume data are drawn from the first three strata via the PERMIT system, which purportedly constitute a certainty sample and produce volume data directly from compilations of mailing (postage) statements. Tr. 2/910-11. Volume data from the remaining six strata come from the sampled offices, which submit volume information every accounting period. Tr. 2/941. These offices supply originals or copies of all of their mailing statements to USPS headquarters, Tr. 2/942, where a contractor tabulates the data. Tr. 2/947.

4. The totals from each of these strata are compiled. A blowup factor is applied to each total sample to produce volume totals for each stratum. For strata 1.1, 1.8 and 1.9, the blowup factor is 1, Tr. 2/910, because these are the certainty samples. For the remaining offices, blow up factors must be calculated to convert data from a relatively small number of offices into reliable results for strata that are sometimes quite large. For example, in stratum 2.8 the blow up factor is 660.50 because only four offices are sampled from a population of 2,642. Tr.2/907.

5. After the totals from the various strata are summed, they are checked against the Postal Services Account Identified Codes (AIC), and if the volumes are incorrect from the panel, they are adjusted to the AIC. Tr.2/932-33.

This system has been in place for an unstated number of years, but at the least, it has been used during Mr. Hunter's tenure beginning in 1984. Tr. 2/895.

The outputs from RPW for many mail classes and subclasses are undoubtedly more reliable than those for in-county, for the simple reason that most of the records producing data for other classes come from the PERMIT system. For regular rate periodicals, for example, PERMIT produces 93 percent of the volume records. NNA/USPS T5-5, Tr. 2/773-4. But for the in-county subclass, PERMIT generates only a little more than half the records. The Postal Service reports only 57.4 percent of in-county volume came from the certainty segment for the FY 1998 period. NNA. Hunter Response to question from NNA at Tr. 2/915, Tr. 46-D/21240.

The relative importance of the sampled nonautomated offices to the in-county volumes, therefore, is greater by several magnitudes than it is for most mail classes. Although the precise reasons for this substantial non-automated office volume reported for in-county have never been clearly articulated by the Postal Service, NNA witness Heath believes a critical factor is that many weekly newspapers enter in rural post offices that are not on PERMIT. Tr. 24/11022. If PERMIT does not fully capture these volumes, it is up to the remainder of the BRPW's counting system to capture them. But the system, finally explained in some detail on the record in this case, offers numerous opportunities for under-reported volumes.

First, Witness Hunter confirms that the total number of offices represented by the BRPW panel used in the base year is 7,766, a number representing 1,603 PERMIT offices and 6,103 non-automated offices.

But there were 2,025 PERMIT offices in 1998, and 26,184 nonautomated offices in 1998. NNA/USPS T5-31, Tr. 2/791. Neither the total number of PERMIT offices in existence during the base year, nor the total number of non-PERMIT offices is reflected in the panel that was used to produce base year volume data.

What of the 20,081 nonautomated offices not represented in the sample? Hunter insists that those offices had no periodical revenue and so there was no need to include them. Tr. 2/930. Yet, if an office that had no periodicals revenue in 1996 began handling mail for an in-county mailer in 1997, 1998 or 1999, that office would not be represented by the panel at all. Tr. 2/932.

Second, what of the 422 offices that migrated out of the nonautomated panel into PERMIT? Witness Hunter avers that the difference between 1,603 PERMIT offices in the panel and the 2,025 offices in 1998 is accounted for by differences in time between the construction of the panel in 1996, Tr. 2/931, and the 1998 fiscal year, Tr.2/792. But he has not adjusted the panel to account for them. Rather, it appears that he collects the data from his panel and then he compares the data to the revenue totals produced by the Account Identifier Code. Finding, presumably, an insufficiency created by the absence of offices from the panel, he then "trues up" the volume data to match AIC. Tr. 2/933.



Whether such adjustments are appropriate to patch the holes in BRPW is a question worth examining. It is clear that the process of "truing up" to the AIC results for in-county has to be flawed. There were in the base year no AIC results for in-county to true up against. Rather, the AIC code produced only total revenues for periodicals, including regular rate, in-county and other subclasses. Id. AIC might provide an opportunity to enhance the accuracy in some cases, but not in-county. There remains--at least where the base year in this case is concerned--no trustworthy measurement of the mailer activity in that subclass within the entire system that can provide a cross-check for the sampling data.

Finally, the nonautomated office strata are represented by a sample size that is so lean that its reliability must be questioned. The mailings from only 4 or 5 offices are used to estimate each of the 6 strata of non-automated offices. Summing over all of the 6 non-automated strata, only 25 offices are being used to stand in for the set of 26,184 non-automated offices. LR-I-230 Appendix A at 3 and Tr.21/8478. These 25 offices bear the burden of representing more than 40 percent of measured in-county volume. Unusual numbers from even a single one of these 25 offices could have a huge impact on the BRPW estimates for in-county.

Clearly the Commission cannot investigate the mail for either 1998 or 1999. It is helpless to repair the flaws in the BRPW system for in-county. However, the Commission can take three actions in this case that would aid in-county newspapers.

First, it can produce an average for base year volumes and test year forecasts based upon the highest acceptable numbers on the record for the years elapsed since R97-1. The possibilities for input would include volumes at the upper 95% confidence intervals.

Second, the Commission can strongly urge that the panel for nonautomated offices should be reconstructed before each rate case so that it properly represents all offices with nonzero in-county (not periodicals) revenue.

Third, it can set minimum standards for the confidence intervals or sample size that it will accept for data emanating from the nonautomated office data contributions to RPW.

NNA recognizes that these efforts may seem burdensome to the Postal Service, which wishes the Commission to take notice that it already does far more for this subclass than the BRPW witness apparently finds warranted. But given the critical role of in-county for the distribution of local newspapers, NNA urges the Commission to continue its strong support for accuracy of the volume data.

### **III. Newspaper mailers should be compensated for drop shipping under exceptional dispatch privileges.**

#### **A. Past attempts to compensate newspaper mailers for this work have failed.**

In Docket R97-1, NNA requested authorization for newspapers employing exceptional dispatch to be afforded a delivery unit discount. The Commission deferred the request to the Postal Service.

In its Opinion, the Commission reviewed the history of NNA's request for this compensation, beginning in Docket No. MC95-1, noting that it had urged the Postal Service to find administrative relief for the uncompensated publishers. PRC Op. R97-1 at 553, para 5875. It reviewed NNA's testimony that Plant Verified Drop Shipping was inadequate for a variety of reasons and that exceptional dispatch was essential to small newspaper delivery. Id. at paras. 5876-80. It concluded that the appropriate relief was to urge the Postal Service to continue with its administrative efforts.

"The Commission finds it troubling that the PVDS option, available since 1991 according to the Service's brief, apparently is still not widely familiar to postal personnel who have day to day responsibility for dealing with publishers' inquiries. However, in light of the Service's representation that the DDU rate is available to NNA mailers under current regulations and its indication that it may develop an educational campaign on this topic, the Commission does not recommend NNA's proposed classification change. The Commission urges the Postal Service to follow through on educational efforts." Id at 555, para. 5881.

In this case, NNA's witness Heath appears again to explain why PVDS is not a viable option for most newspaper mailers in need of exceptional dispatch.

He explains how exceptional dispatch is used. It involves a privilege granted by a local postmaster that permits a newspaper mailer to enter mail at an entry office, pay postage there, file mailing statements and marked copies there, but to transport small volumes of the mail after entry to a nearby office in the area for faster delivery. Tr. 24/10911. The privilege is granted to improve delivery and

often involves a split second drop, where the mail arrives just before the carrier departs for delivery. *Id.* at lines 18-19.

The mailer incurs an expense for this nonpostal transportation, but to date, he or she is uncompensated for the avoided cost. The sole reward is better delivery. *Id.* at lines 13-15.

In the past, Heath testifies, the Postal Service has resisted the extension of a delivery unit discount to this mail because the dropped volumes are not verified. *Tr.* 24/10912 at lines 3-4. But he also points out that unverified mail is not an unusual phenomenon where the volumes are static from week to week. He notes that neither is the mail at the entry office verified on a regular basis. *Id.* at lines 6-11. Because of the constancy of the newspaper mail volumes and the close working relationship between postmaster and mailer, the need for mailing-by-mailing verification has been deemed unnecessary. *Id.* If a potential for fraud or error exists, the Postal Service possesses the means for making corrections or denying the exceptional dispatch privilege. *Id.* at lines 11-18.

The Postal Service implied early in this docket that PVDS or additional entries would be appropriate ways for a publisher to earn a delivery unit discount. *See e.g.* *Tr.* 24/10932-41. Witness Heath explains in response to each question why those two options were unrealistic for a time-sensitive, small volume mailing. He points out that if the PVDS and additional entry options were feasible, he would not be making the request, since both were available before R97-1, as well as after. He comes back to the Commission in this case because his newspaper members continue to have to perform exceptional dispatch to get

timely delivery and they have continued to request compensation for the work-sharing. Tr. 24/11021.

Heath proposed that the Commission address the Postal Service's concerns about misuse or fraud by limiting the discount eligibility in several ways:

1. The exceptional dispatch must be authorized by a postmaster to meet time sensitive needs. Tr. 24/10910.
2. The distance of the haul is no greater than 100 miles. (Heath later urged instead that Postal Zones 1-2 be utilized as geographic boundaries, for ease of administration. USPS/NNA T1-4 at Tr. 24/10939.)
3. The piece volumes from issue to issue would not vary more than 2%. Tr. 24/10910.

Heath's request for the work-sharing discount is consistent with the Commission's past recognitions that worksharing should be encouraged and rewarded when the economics favor the private enterprise.

As Witness Glick observed in testimony for the Association for Postal Commerce and MASA (Tr. 32/15717):

"...Any activity that can be performed by more than one agent should be performed by the most efficient (least cost) agent. In the case of postal services, the principle of Efficient Component Pricing can be applied to the establishment of a discount granted to mailers for performing some task that would otherwise be performed by the Postal Service, such as mailer presorting instead of Postal Service sorting. ECP minimizes the total cost of providing mail service; the total cost is the sum of the Postal Service's cost plus the mailer's cost of worksharing

(known as a user cost) if the mailer chooses to workshare. Under ECP, the price difference between a non-workshared mail category and its workshared component should equal the difference between the Postal Service costs of the non-workshared and workshared mail category." Docket No. R97-1, USPS-T-31 at 72-73.

NNA Witness Elliott provides the explanation of the type of worksharing that exceptional dispatch receives. Dr. Elliott testifies that exceptional dispatch mail is the equivalent of other mail dropped at a delivery unit, Tr. 24/11048, and should receive the DU discounts estimated by Witnesses Crum (USPS-T-27 at pages 18-21) and Taufique, USPS T-38 at 7-10. He also notes that Witness Stralberg has estimated additional cost savings by capturing the values of work saved in unloading costs at the delivery unit. Tr. 24/11049. Because the same mail processing and transportation savings result when publishers drop their mail at a delivery unit--whether by additional entry or exceptional dispatch--Dr. Elliott argues that it is appropriate for the discount to be extended to both. *Id.*

**B. The Commission should encourage the Postal Service to proceed with its intended regulatory process or, in the alternative, the Commission should recommend the discount.**

In rebuttal testimony, USPS Witness Altaf Taufique testifies that the Postal Service is now prepared to extend the delivery unit discount to exceptional dispatch mail. It basically adopts witness Heath's recommendations on the parameters. Taufique said the Postal Service was in general agreement with witness Heath's proposal. Rebuttal Testimony of Altaf H. Taufique on Behalf of the Postal Service, USPS-RT-25 at 1, Tr. 43/18771.

Taufique reports that the Postal Service intends changes to the Domestic Mail Manual incorporating witness Heath's proposal. Id at 1, lines 7-10. He says the Postal Service will use the Heath parameters and will additionally impose a circulation ceiling of 25,000 readers on eligibility to deter larger publications from evading PVDS or additional entry to use the privilege. Id at p.3, lines 18-23, p. 4, line 1. Taufique asks the Commission once again to take no action, believing the DMM change will suffice. Id at 1, lines 10-13.

The level of DU entry discount for the after-rates period presumably will be established by the Postal Board of Governors pursuant to this docket. Although there is no record evidence indicating the impact upon the mail mix or costs, the only witness with knowledge of this practice, NNA's Heath, states credibly that the impact will be miniscule. Tr. 24/10937.

In many circumstances, NNA would be reluctant to agree that discounts should be given or taken away without Commission action. However, given that a rate cell for delivery unit entry at within county and regular rate levels most likely will be appropriately developed by the Commission and adopted by the governors in this case, and that the volumes eligible to shift to this usage would likely be virtually undetectable, NNA agrees that the Postal Service's acceptance of exceptional dispatch mail at the DU rate is appropriate.

Should the Commission disagree that the discount can be extended by the sole discretion of the Postal Service, however, NNA respectfully argues that a specific recommendation to extend the DU rate to exceptional dispatch mail should be a part of the Commission's decision.

#### **IV. In-county mail processing cost estimates are unreliable.**

As a result of limitations in the Postal Service's costing system, in-county mail suffers from huge swings in estimated variable costs. Postal Service witness Ramage reports that the BY98 estimate of \$13 million for mail processing costs (segment 3.1) has a 95 percent confidence interval ranging from \$10 million to \$16 million. USPS-T-2 at 8. With this kind of uncertainty, it is impossible to tell with any confidence what the costs of in-county mail actually are. The update for FY99 reports that in-county mail processing costs are \$17 million, but the increase from the year before is most likely to result from statistical noise. USPS-LR-I-276. When unreliable cost estimates are combined with unreliable volume estimates, the resulting unit costs suffer from both kinds of uncertainty.

NNA witness Heath describes the senselessly zigzagging unit costs for mail processing. Tr. 43/18511. With corrected figures from the Postal Service, it appears that the mail processing unit cost was 2.9 cents in FY93; then it dropped abruptly to 1.8 cents in FY94. Unit costs shot up from 1.7 cents in FY96 to 2.2 cents in FY97, then dropped to 1.1 cents in FY98, and shot up again to 1.9 cents in FY99. NNA/USPS-ST-44-1, Tr. 43/18511.

There have been no changes in behavior by the newspaper mailers that would explain shifts or trends toward higher processing costs. To the contrary, mailers have made changes that should have reduced costs. Heath states some of those in his testimony on pages 7-8, Tr. 43/18511-12.



As in the volume data, it is clear that the costing data suffer from the size of the class and the availability of accurate sampling. Although the Postal Service may not be able to improve the reliability of the measurement, the mailers should not suffer from the fact that their subclass is small. The Commission should recognize the unfairness of penalizing mailers for the fact that the presence of their mail is sometimes hard to detect.

**V. Cost savings for Periodicals should be recognized.**

**A. NNA joins the Periodicals Mailers in urging recognition of cost-savings in the test year.**

NNA has supported numerous efforts by the Postal Service to reduce Periodical handling costs. The record will show, for example, that the introduction of Line of Travel (LOT) preparation requirements into Periodical mail is believed by the Postal Service to hold the potential for significant cost savings. Direct Testimony of Rita D. Cohen on behalf of the Periodicals Mailers, Tr. 24/11273. NNA has agreed to urge its members to take on this new burden, despite the additional costs to them.

The Coalition, with NNA's participation and assistance, separately addresses LOT and other cost-saving initiatives. NNA here merely underscores the importance to newspapers of the Commission's acceptance of these adjustments in the case as filed by the Postal Service.

**B. The Postal Service's attempt to attribute rising mail processing costs to service falls flat.**

The Postal Service makes an attempt to blame the rising periodicals costs upon service considerations. USPS Witness Unger, for example, appears in response to Commission inquiries about the cost trend and devotes several pages of his testimony to tautologies about Periodical service:

"Service standards and the expectations of customers significantly influence mail processing decisions and thereby affect mail processing costs. " Supplemental Testimony of Dennis R. Unger on Behalf of the United States Postal Service, in Response to Order No. 1289, USPS-ST-43 at 5, lines 24-26.

"Periodicals are time-sensitive, and there is an infrastructure in place to reinforce the importance of service." Id at lines 29-30.

"This service sensitivity also leads postal plants and delivery units to accommodate the occasional printing and transportation disruptions that can occur in mailer and printer plants." Id at page 6, lines 5-7.

"Time-sensitive publications are known as "HOT PUBS."....This is a physical reminder of the efforts that distribution and delivery will undertake to ensure that even if there is an upstream problem with the arrival of a periodical from another postal facility or from the printer, on-time delivery can be maintained." Id. at lines 23- 29.

And on it goes. Taking the testimony at face value would lead one to assume that the Postal Service between R97-1 and BY98 had busted the

records to get the Periodicals out on time--and that therein lies the reason for rising costs.

But the witness states on cross-examination that he doesn't know that Periodical handling costs have changed during the relevant time period. Tr. 21/8272. Unger admits under questioning by Commissioner Goldway that costs for Periodicals mail should be less due to the use of automated equipment in addition to manual processing (Tr. 21/8277, 8278.) He admits to Commissioner Goldway, "Why the costs for Periodicals specifically has gone up, I can't answer." Tr. 21/8279. He also agrees under cross-examination by Dow Jones that the elements he has cited as extraordinary efforts to reduce costs have been unchanged over many years and should have had an impact on reduction of costs. Tr. 8219-8221. It becomes evident by the conclusion of his testimony that, whatever the explanation for rising mail processing costs, for which he has no answer, service plays no role.

**C. The impact of the proposed rates is far graver than the initial filing indicates.**

Periodicals mailers uniformly attest that their assessment of likely impact upon their newspapers, magazines and newsletters is more costly than the Postal Service has predicted.

NNA's Heath, for example, cites a range of 13.2-16.5% increase for his publications, if proposed rates are adopted. Direct Testimony of Max Heath on behalf of NNA, Tr. 24/10919.

The Professional Football Publications Association witness Jones finds increases ranging from a per piece rate of \$.19 to \$.22, in an atmosphere where declining service has prompted scores of subscription cancellations from his devoted football fans. Tr. 24/10857. Time-Warner's O'Brien points out that no business can sustain 15% increases every two years for long. Direct Testimony of James O'Brien on Behalf of Periodicals Mailers, Tr. 24/11195. Even the small religious publications are amassed in this case to discuss the impact of the current and proposed rate increases. Dr. John C. Stapert of the Coalition of Religious Press Associations testifies that "[E]ither alternative, i.e., current rate design using USPS-developed costs or the new proposed rate design relying on the same costs, results in a disaster for nonprofit and religious organizations." Direct Testimony of John Stapert on Behalf of the Coalition of Religious Press Associations, Tr. 30/14439.

In short, the proposed rates would be a body blow to a wide range of publications that are important to the educational, cultural, scientific, religious and entertainment needs of the American public. Nothing in the case suggests that the Periodical mailers have changed their habits or characteristics in such a way as to create the alarming cost trends on record in this case. Rather, the record suggests Periodicals are being asked to pay the price for the Postal Service's inability to properly manage its human and fiscal resources.

Nothing in the law compels the Commission to pass along the burden of inefficient management to the customers. Rather, the Commission should use its discretionary powers, buttressed by the sound evidence of cost savings to come,

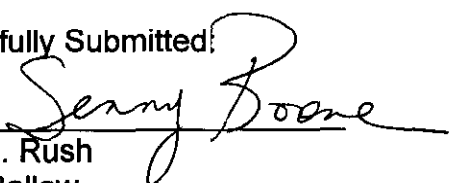
as well as the reasoned questioning of the contingency levels in this case, to lower the prices of service for Periodicals.

## **VI. Conclusion**

In one of the most complex cases in the history of the Postal Service, the Commission is faced with a number of troubling trends affecting newspapers in the mailstream. First, flaws in the measurement of in-county volumes may be producing punitively high rates. Second, equal problems with mail processing cost data for in-county contribute to the high rates. Finally, the Postal Service's inability to control mail processing costs, coupled with the flawed attribution systems addressed by the Periodicals Mailers, combine to produce an extremely threatening environment for newspapers in the mailstream. The impact of the proposed rates would be harmful to newspapers and, thus, to their readers. The Commission has the discretion to adjust the in-county data to minimize the impact and to accept the testimony of the Postal Service and the Periodical Mailers on likely cost reductions in mail processing and other elements of cost. Because the future of newspapers in the mail is dependent upon the

Commission's recognition of the need for unusual actions in this case, it is urged to take all necessary steps to prevent the harms that would be created by steeply rising rates.

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### **CERTIFICATE OF SERVICE**

I hereby certify that I have this date served the instant document on all participants of record in this proceeding in accordance with Section 12 of the Rules of Practice.

A handwritten signature in cursive script, reading "Marie Callan", written over a horizontal line.

Marie Callan

Date: 9/13/2000